

Message Text

PAGE 01 STATE 063987
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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 063987

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E.O. 11652:GDS

TAGS: EGEN, ECON

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT

MARCH 22, 1977

1. TRADE PROBLEMS BETWEEN EAST ASIA AND EUROPE (CONFIDENTIAL)

DURING HIS RECENT VISIT IN LONDON, JULES KATZ WAS TOLD BY PETER THORNTON, PERMANENT SECRETARY OF THE DEPARTMENT OF TRADE, THAT TRADE WITH JAPAN AND THE MORE ADVANCED EAST ASIAN COUNTRIES IS DIFFERENT THAN TRADE WITH THE WEST AND MAY HAVE TO BE TREATED DIFFERENTLY. THORNTON DESCRIBED COMPETITION FROM THESE COUNTRIES AS NARROWLY FOCUSED, RAPID AND DESTRUCTIVE AND THE BRITISH GOVERNMENT WILL NOT STAND BY AND LET INDUSTRIES BE DESTROYED BY IMPORTS FROM EAST ASIA. UPON HIS RETURN

CONFIDENTIAL

PAGE 02 STATE 063987

KATZ COMMENTED THAT THORNTON'S DESCRIPTION OF THE SITUATION, VERY MUCH IN TERMS OF THE QUOTE YELLOW PERIL UNQUOTE USED IN THE US IN THE EARLY 70S, CASTS A HEAVY SHADOW ON THE MTN.

2. STRATEGY PAPER FOR SUMMIT AND CIEC (CONFIDENTIAL)

THE EPG WILL CONSIDER A STRATEGY PAPER NEXT FRIDAY WHICH

CONTAINS OPTIONS ON ALL THE KEY ECONOMIC ISSUES TO BE DEALT WITH AT THE SUMMIT AND IN CIEC. AMONG THE MORE

SIGNIFICANT OPTIONS ARE THE POSSIBLE ENDORSEMENT OF NEW FINANCING ARRANGEMENTS IN THE IMF, AN EXPANDED SUMMIT DECLARATION ON TRADE LIBERALIZATION, A GRAIN RESERVES SYSTEM COMPROMISE BETWEEN US AND OTHER INDUSTRIALIZED COUNTRIES, AN INCREASED ROLE FOR THE IBRD IN FINANCING ENERGY DEVELOPMENT, A SUBSTANTIAL INCREASE IN US AID OVER THE NEXT SEVERAL YEARS AND A MORE FORTHCOMING POLICY ON COMMODITIES AND THE COMMON FUND.

3. CIEC AND OECD MINISTERIAL MEETINGS
(LIMITED OFFICIAL USE)

THE CIEC MINISTERIAL MEETING IS NOW SET FOR MAY 30-31 AND JUNE 1. SECRETARY VANCE IS TO ATTEND, ALTHOUGH IT IS NOT CERTAIN HE WILL STAY FOR THE THREE DAYS.

THE OECD MINISTERIAL MEETING IS SCHEDULED FOR JUNE 23-24. BOTH SECRETARY VANCE AND SECRETARY BLUMENTHAL WILL ATTEND. IT IS NOT YET CLEAR WHETHER THERE WILL BE AN IEA GOVERNING BOARD MEETING AT THE MINISTERIAL LEVEL. IF SO, IT WOULD PRESUMABLY BE AROUND THE OECD MEETING.

4. ASEAN/JAPAN AND ASEAN/US CONSULTATIONS (CONFIDENTIAL)

ASEAN/JAPAN DIALOGUE WILL BE HELD ON MARCH 23 IN JAKARTA
CONFIDENTIAL

PAGE 03 STATE 063987

AND THE GOJ DELEGATION WILL BE HEADED BY DIRECTOR MAKAI OF THE ASIAN DIVISION OF THE GAIMUSHO. THE MORNING SESSION IS TO BE A CONTINUATION OF THE ASEAN/JAPAN FORUM (SYNTHETIC RUBBER, CITRUS) AND THE AFTERNOON SESSION WILL BE CONCERNED WITH PREPARATIONS FOR THE FUKUDA MEETING WITH ASEAN LEADERS IN AUGUST.

IN THE MEANTIME WE ARE BEGINNING TO START PREPARATIONS FOR THE US/ASEAN CONSULTATIONS ON THE ASSUMPTION THAT THEY MAY BE HELD DURING THE SECOND WEEK OF JUNE AND THAT THE OUTLINE OF THE AGENDA WILL BE ALONG THE LINES WE PRESENTED IT TO ASEAN, PLUS AID. WE WILL WANT TO PUT THE EMPHASIS ON PRIVATE INVESTMENT. WE HAVE INCLUDED IN THE BRIEFING PAPERS FOR THE PRESIDENT'S TALKS WITH FUKUDA THE SUGGESTION THAT WE JOINTLY EXPLORE USING THE ASIAN DEVELOPMENT BANK MORE EFFECTIVELY IN SUPPORT OF ASEAN DEVELOPMENT.

5. CONCERN ABOUT INDONESIAN STANCE IN THE COMMON FUND NEGOTIATIONS (CONFIDENTIAL)

THE UNCTAD NEGOTIATIONS ON A COMMON FUND HAVE BEGUN TO FOCUS ON SUBSTANTIVE ISSUES. THE US STATED THAT IT QUOTE HAS NO A PRIORI OBJECTION TO A COMMON FUND FOR

INDIVIDUALLY AGREED BUFFER STOCKS. THEREFORE WE ARE
PREPARED AT THIS CONFERENCE TO BEGIN TO NEGOTIATE
ACTIVELY, WITHOUT PRECOMMITMENT, ON THE POSSIBLE
OBJECTIVES AND ELEMENTS OF SUCH A FUND. UNQUOTE
G-77 COUNTRIES GENERALLY REACTED FAVORABLY, SO MUCH SO
THAT THERE IS SOME CONCERN THAT THEY MAY HAVE READ MORE
INTO IT THEN THEY SHOULD HAVE. THE INDONESIAN
REPRESENTATIVE, HOWEVER, IS GIVING US SOME CONCERN WITH
HIS ATTACK ON STATEMENTS BY GROUP B MEMBERS AND HIS
INSISTENCE THAT THE COMMON FUND MUST PRECEDE AND NOT
FOLLOW INDIVIDUAL COMMODITY AGREEMENTS. SINCE HE SPOKE
CONFIDENTIAL

PAGE 04 STATE 063987

IN THE NAME OF THE G-77 IT IS NOT QUITE CLEAR TO WHAT
EXTENT HIS VIEWS ALSO REFLECT THE INDONESIAN POSITION.
WIDJOJO'S VISIT TO WASHINGTON SHOULD GIVE US AN EARLY
OPPORTUNITY TO EXCHANGE VIEWS ON OUR COMMODITY POLICIES.

6. UNDER SECRETARY COOPER CALLS TREASURY SECRETARY
BLUMENTHAL TO BREAK INDONESIA PL-480 IMPASS
(LIMITED OFFICIAL USE)

LAST WEEK WE REPORTED THAT WE WERE REQUESTING SECRETARY
VANCE TO CALL TREASURY SECRETARY BLUMENTHAL TO BREAK
THE IMPASS OVER AN INCREASED PL-480 LEVEL FOR INDONESIA
FOR FY 77. AS THE SECRETARY'S SCHEDULE LEFT HIM NO TIME
FOR THE MATTER, UNDER SECRETARY COOPER AGREED TO MAKE
THE CALL. BLUMENTHAL, HOWEVER, WAS UNFAMILIAR WITH THE
PROBLEM HIMSELF, BUT DID, AT COOPER'S REQUEST AGREE TO
LOOK INTO THE MATTER. COOPER SAID HE WOULD CALL BACK
LATER TO DISCUSS THE MATTER.

7. FOOTWEAR (LIMITED OFFICIAL USE)

AT THE EPG MEETING ON MONDAY, STATE, JOINED BY TREASURY,
CEA AND HUD, SUPPORTED ENRICHED ADJUSTMENT ASSISTANCE
FOR THE DOMESTIC FOOTWEAR INDUSTRY. AGRICULTURE,
COMMERCE AND STR ALL SUPPORTED SOME FORM OF QUOTE
LIBERAL UNQUOTE TARIFF QUOTA WHILE LABOR SUPPORTED THE
MORE RESTRICTIVE ITC RECOMMENDATION. A PAPER CONTAINING
TWO OPTIONS, EXPANDED ADJUSTMENT ASSISTANCE AND QUOTE
THE MINIMAL PROTECTION THAT EVERYONE CAN LIVE WITH
UNQUOTE, WILL BE SUBMITTED TO THE EPG FOR ITS DECISION
ON MARCH 28.

8. TIN (LIMITED OFFICIAL USE)

DRAFT PROCEDURES FOR AN QUOTE ECONOMIC AND PRICE REVIEW
PANEL UNQUOTE TO MAKE SEMI-ANNUAL PRICE RECOMMENDATIONS
CONFIDENTIAL

PAGE 05 STATE 063987

WILL BE SUBMITTED TO THE INTERNATIONAL TIN COUNCIL (ITC) FOR CONSIDERATION AT ITS MARCH 29 MEETING. ALTHOUGH THE NEW PROCEDURE FALLS SHORT OF AN AUTOMATIC INDEXATION PROPOSED BY THE BOLIVIANS, WE HAVE RECEIVED INFORMAL ADVICE FROM BOLIVIAN SOURCES THAT THE BOLIVIAN GOVERNMENT WILL ENDORSE THE PROCEDURE AND RATIFY THE TIN AGREEMENT, THUS BRINGING THE AGREEMENT INTO FULL EFFECT.

9. ADF FUNDING LEVEL STILL UNCLEAR ON THE HILL; FULL IDA REQUEST APPROVED (UNCLASSIFIED)

IN ACTION LAST WEEK THE FULL HOUSE SUPPORTED THE REDUCTION BY THE LONG SUBCOMMITTEE OF 40 PERCENT OF OUR DOLLARS 25 MILLION FY 77 SUPPLEMENTAL REQUEST FOR THE ADB'S SOFT LOAN FACILITY, THE ASIA DEVELOPMENT FUND. FORTUNATELY, IN THE SENATE THE INOUE APPROPRIATIONS SUBCOMMITTEE APPROVED THE FULL LEVEL. AS IT IS LIKELY THAT THIS ACTION WILL BE SUPPORTED BY THE FULL SENATE, THE ISSUE OF OUR ADF CONTRIBUTION WILL NOW NEED TO BE RESOLVED IN CONFERENCE. BOTH THE HOUSE AND SENATE APPROVED THE ADMINISTRATION'S FULL DOLLARS 55 MILLION REQUEST FOR IDA.

10. ADB STRESSES ITS CAUTIOUS APPROACH TOWARD RESUMPTION OF LENDING TO VIETNAM (LIMITED OFFICIAL USE)

THE ADB HAS REITERATED ITS VIEW THAT IT WILL BE AT LEAST MID-SUMMER (OR POSSIBLY LONGER) BEFORE DISBURSEMENT OF FUNDS TO VIETNAM RESUMES EVEN IF, AS EXPECTED, THE BANK PRIOR TO ITS APRIL ANNUAL MEETING LIFTS THE SUSPENSION OF ACTIVITY IMPOSED IN THE SPRING OF 1975. ALL NINE PREVIOUS ADB LOAN PROJECTS WILL LIKELY REQUIRE SEPARATE MISSIONS TO BRING THEM BACK ON STREAM AND NO SUCH TRAVEL IS CONTEMPLATED PRIOR TO MAY.

CONFIDENTIAL

PAGE 06 STATE 063987

11. ADMINISTRATION MOVES TO ELIMINATE PUNITIVE CLAUSES IN PL-480 LAW AGAINST THOSE WHO TRADE WITH NORTH VIETNAM (CONFIDENTIAL)

AFTER SOME DISCUSSION THE DEPARTMENT HAS NOW DECIDED TO SEEK AMENDMENT IN A LOW KEY FASHION OF THE PRESENT PL-480 LEGISLATION'S PROVISIONS DIRECTED AGAINST THOSE WHO TRADE WITH NORTH VIETNAM. SPECIFICALLY, WE WOULD DROP THOSE PROVISIONS THAT FORBID PL-480 SALES OR CCC CREDITS TO COUNTRIES AND/OR EXPORTERS WHICH HAVE DEALT IN ANY WAY WITH HANOI.

12. TRADE UNION ADVISORY COUNCIL (TUAC) REQUESTS CONSULTATION PRIOR TO SUMMIT (LIMITED OFFICIAL USE)

THE TRADE UNION ADVISORY COUNCIL (TUAC) HAS REQUESTED CONSULTATIONS WITH THE OECD ON ISSUES TO BE DISCUSSED AT THE SUMMIT. THE REQUEST WILL BE HONORED BUT QUESTIONS REMAIN AS TO STRUCTURE AND TIMING. THE DEPARTMENT'S POSITION HAS NOT BEEN DECIDED BUT APPEARS POINTED TO A MEETING WITH THE CHAIRMAN OF THE ECONOMIC POLICY COMMITTEE.

13. STATE'S ADVISORY COMMITTEE ON TRANSNATIONAL ENTERPRISES (TNES) MEETS (UNCLASSIFIED)

THE ADVISORY COMMITTEE HELD A LIVELY SESSION MARCH 17. TWO ITEMS ATTRACTED THE MOST ATTENTION; FIRST, THE POSSIBILITY OF THE TRADE UNION ADVISORY COUNCIL (TUAC) RAISING ALLEGED VIOLATIONS OF THE OECD GUIDELINES FOR TNES AT THE NEXT MEETING OF THE OECD COMMITTEE ON INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES (CIME). THE MOST LIKELY CANDIDATE FOR SUCH DISCUSSION IS A BANKRUPT FOREIGN SUBSIDIARY OF A US TNE. THE SECOND ISSUE DISCUSSED AT LENGTH WAS THE ADMINISTRATION'S

CONFIDENTIAL

PAGE 07 STATE 063987

DECISION TO SUPPORT CRIMINALIZATION OF ILLICIT PAYMENTS. THIS SWITCH MADE AT THE LAST MOMENT WITH NO TIME TO CONSULT WITH THE ADVISORY COMMITTEE CREATED CONSIDERABLE UNHAPPINESS.

14. SECTION 911 (UNCLASSIFIED)

THE SENATE FINANCE COMMITTEE VOTED UNANIMOUSLY LAST WEEK TO ELIMINATE THE RETROACTIVE PROVISION OF SECTION 911 OF LAST YEAR'S TAX REFORM BILL WHICH CURTAILED THE TAX BENEFITS OF PRIVATE AMERICANS OVERSEAS.

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